

JOINT ISSUES COMMITTEE
BOI MEETING ROOM
MAY 11, 2006

Dave Ewer, Facilitator, called the meeting to order at 3:30 p.m. on Thursday, May 11, 2006.

Present at this meeting:

David Ewer, Budget Director
Tim Ryan and Scott Dubbs, Teachers' Retirement Board
Jack Prothero and Terry Cohea, Board of Investments
John Paull, Public Employees Retirement Board
Carroll South, Board of Investments Executive Director
Roxanne Minnehan, MPERA Executive Director
David Senn, Teachers' Retirement System Executive Director

Others in attendance:

Melanie Symons, MPERA Legal Counsel
Barb Quinn, MPERA Fiscal Services Bureau Chief
Jim Kembel, MPPA, MACOP, TIAA-Cref
Amy Carlson and Christi Moyer, Office of Budget and Program Planning
Kory Skinner and Linda Owen, MPERA

The minutes of the meeting of April 3, 2006 were provided. There was discussion about adding to those minutes the goals for the Joint Committee, A through F.

- A. Unified executive branch position regarding public retirement matters
- B. Increase communication among the three boards
- C. Avenue to understand each board's role
- D. Enhance entire mission of public retirement systems on an asset/investment and liability/retirement benefit basis
- E. Joint needs, such as audit and reporting functions
- F. Legislative overview/position harmony

A motion was made by Terry Cohea to adopt the amended minutes from the April 3, 2006 meeting. The motion passed unanimously. Mr. Ewer asked the Committee members to introduce themselves.

Discussion of the TRS Asset/Liability Study and Implementation

The TRS Asset/Liability Study has been completed. The PERS Asset/Liability Study is schedule to begin and will be presented, hopefully, before the August BOI meeting. The TRS Asset/Liability Study was premised on increasing employer contributions. Legislatures need to look long-term.

There was discussion of a few ideas on fixing the retirement systems. Mr. South felt this Joint Issues Committee needs to be prepared to address the bonding issues. The basic elements of the bond issue to consider are:

1. A general obligation bond, taxable, with the general fund as the payback source.
2. An alternative is to increase the employer contributions by incremental amounts, and pledge that incremental amount of increase to repay the bond.
3. Another idea is to increase the positive arbitrage, to see if the IRS would permit the issuance of bonds solely in the amount to pay benefits for one year.

Bonds are unappealing and may hurt the state's ratings and result in audit exceptions.

Mr. Ryan asked about the cost on the Asset/Liability Study. Mr. South said it was about \$30,000 for each of the two large funds. He stated they will need to negotiate for the small systems. On the average, a study should be done approximately every five years. If the legislature does not try to do something with the unfunded liability, why should another asset/liability study be done? Something has to change in the system before doing another study.

This is of paramount concern to the Schweitzer Administration and it needs to be addressed in this legislative session. Mr. Ewer was careful not to be speaking for the Governor on this because it is too early for him to make any decision on a matter this large. Mr. Ewer acknowledged that additional infusion of cash to reduce the impact on taxpayers, particularly with respect to the TRS, is an option that will be strongly considered.

Mr. Ewer talked about the concerns of the Schweitzer Administration. It is smart politics for the Governor not to piecemeal the budget, but wait to see the results of these meetings and what the legislature might be talking about before committing to anything definite. Many challenges face this committee. Mr. Ewer addressed the possibility of benefit cuts for new hires; however, he feels that is going backwards. He is open to the idea, but it is not the most favorable option. He also stated there will be a lot of pressure on one-time money.

The TRS has taken the position that the employer contributions would be increased. Discussion on the teachers' retirement included monies from the lottery and general fund. Besides retirement, they want more money in the classroom. Also salary increases. Concepts were discussed and there are concerns about the status quo. There will be many challenges.

Mr. South suggested a possible compromise, that the employer contributions be increased for PERS with a funding source other than the general fund, but the contribution increases for TRS be made whole by general fund appropriation on an ongoing basis. This committee needs creative ideas to present to the Legislature. There is a broad array of funding sources that could be used to pay the employer contribution increases, such as a mix of local government, general fund, and federal and proprietary funds. Funding source money could be phased in.

Committee Structure and Logistical Support

Dave Ewer thanked Roxanne Minnehan and her staff, Kory Skinner and Linda Owen, for providing logistical support for the meetings through the end of the year.

Discussion is helpful with providing insight into understanding the similarities and differences with problems and the different “fixes.” Mr. Ewer felt the objective of this committee is to take ownership as far as collective ideas, report back to the respective boards, and then let this committee know what the different boards are thinking. This committee would be the conduit for working together, sharing information, and processing ideas.

Mr. Ewer also felt it was his role, and that of the committee, to arm the Governor with as much knowledge as they can of what is possible and what the consequences are of any decision. In turn, the Committee would like to know, as early as possible, what the Governor is inclined to support.

Dave Ewer opened for discussion how often the committee should meet. Several comments were offered. It was unanimously agreed to meet at least twice a year and maybe twice more before the end of this year. The next meeting will be in mid to late September with the date and time to be announced.

Status Report on Interim Committee and Legislation

Roxanne Minnehan gave a status report on the SAVA Interim Committee and what they discussed at their March, April and May 2006 meetings. The Committee reviewed draft bills addressing administrative rules and MPERA/PERB’s organization. They also addressed the principles and guidelines they use for reviewing legislation, and House Joint Resolution 42 and how they are going to address possible “fixes” to the retirement systems.

June 9th is the deadline for submitting legislative proposals to the SAVA Committee, and on June 22-23, the SAVA Committee will hear the legislative proposals affecting public employee retirement plans.

MPERA has sent a memo to stakeholders inquiring what kind of legislation they might be proposing. The Deferred Retirement Option Program (DROP) was also discussed. Ms. Minnehan explained the DROP.

A motion was made at 4:55 p.m. to adjourn the Joint Issues Committee. Motion passed unanimously.